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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 000336

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SUBJECT: BP RUSSIA LAWYER DISCUSSES "IMMENSE CHANGES" IN
BUSINESS PRACTICES SINCE FORMATION OF TNK-BP

REF: 07 MOSCOW 4583

Classified By: Econ MC Eric Schultz for Reasons 1.4 (b/d)

Summary

[11](#). (C) BP Russia's chief lawyer, Michael Drew (protect), said that when TNK-BP was formed in 2003 there were profound differences in the business philosophies of senior Russian management at the former TNK and those of BP. When BP bought 50% of TNK, it found a company with no health, safety, or environmental program, no interest in institutionalized corporate governance, and a culture of maximizing short-term gains over long-term performance. He said that divide has been significantly narrowed, with TNK-BP adopting, even if grudgingly, many of the practices of its Western partner. End Summary.

Narrowing Differences

[12](#). (C) Having recently ended a temporary assignment with TNK-BP, BP Russia chief lawyer Michael Drew (protect) told us February 6th that his company has brought significant long-term value to its joint venture, TNK-BP, and to Russia, with its insistence on international standards of corporate management. BP's strategy is guided by a long-term vision of value creation for the shareholder. TNK was initially more of a "smash and grab" outfit with a short-term outlook pervasive among senior TNK management as well as culturally ingrained among the rank-and-file.

[13](#). (C) Drew said that although the philosophical differences continue, BP has been largely successful in forcing TNK to accept BP's ways and norms. He started with what he described as BP's top concern worldwide -- health, safety, and environmental management (HSE). According to Drew, "HSE was non-existent at TNK" when BP bought 50% of the company in [12003](#). He said BP immediately demanded that all workers be trained in HSE and be provided with state-of-the-art protective clothing and gear in the field. Drew said he believes many lives have been saved and injuries prevented as a result. TNK was incredulous of the need for such an expense, that seemed, on face of it, to have little immediate payback for the company.

¶4. (C) Drew said BP has also instituted modern management practices and technologies that TNK lacked. Investment decisions, previously haphazard, are now run through rigorous models and scenarios and ultimately approved by an investment committee. BP has also pushed TNK-BP to move toward international standards of corporate governance and transparency. Although just 3.5% of TNK-BP stock is held by the public, BP has insisted that those shareholders' rights be respected. Drew said TNK management saw this as another costly exercise with little benefit, since, in their view, "the most those shareholders could do is to unsuccessfully sue in the Russian courts."

Immense Changes

¶5. (C) According to Drew, TNK-BP's tax payments to the government (the company is among the very largest single taxpayers in Russia) have increased dramatically over the last three years and that a "sizable amount" of those increases are purely a result of legitimized bookkeeping and unrelated to the company's growth. Another of Drew's examples of the "immense changes" at TNK-BP was the move from a system of simple "cash for work" to a comprehensive system of employee benefits, including health care and training.

¶6. (C) Drew said it is hard to overstate how challenging it was to work in a Russian company, explaining that he checked his moral compass frequently to make sure he didn't fall into the trap of accepting the deplorable status quo simply because "that's how they do it here." An example of the

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absurdities he faced was the discovery that a "lawyer" on his team was not in fact a real lawyer and had no legal training. He had presumably been given a job in the legal department due to his connections. Drew said that what got him through the challenges was the knowledge that BP was making a difference, not only for TNK-BP, but for the Russian employees and Russia in general.

¶7. (C) Drew also extolled the "rigor exerted by the debt markets." He explained that TNK-BP's need to borrow in international markets had forced a level of transparency and results-focused management that had been previously lacking. "The banks like to know what you're doing with the billion dollars they loan you."

Comment

¶8. (C) Drew's account of TNK's operations tracks closely with what we have heard from other expats working within Russian companies (reftel). Inefficiency, short-term thinking, a lack of health, safety, and environmental standards, along with few internal standards and procedures for corporate governance, are all hallmarks of the old way of doing business here. But those ways are changing, thanks in part to the active participation of international companies in partnerships such as TNK-BP. End comment.
BURNS